

FINANCIAL AUDIT
OF THE

MICHIGAN LIQUOR CONTROL COMMISSION

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1999 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Michigan Liquor Control Commission (MLCC)
Department of Consumer and Industry
Services

October 1, 1999 through September 30, 2001

Report Number:
63-160-02

Released:
August 2002

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial statements. This financial audit of MLCC was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Liquor Purchase Revolving Fund financial statements.

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**Internal Control Over Financial  
Reporting**

We did not report any findings related to internal control over financial reporting.

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**Noncompliance Material to
the Financial Statements**

We did not identify any instances of noncompliance applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

Background:

MLCC is governed by Sections 436.1101 - 436.2303 of the *Michigan Compiled Laws* (Act 58, P.A. 1998, the Michigan Liquor Control Code of 1998). MLCC consists of five members, each appointed for a term of four years by the Governor with the advice and consent of the Senate. The responsibilities of MLCC include the oversight of alcoholic liquor distribution within the State; licensing of the manufacture, importation, and sale of liquor; levy and collection of excise and specific taxes on liquor, beer, and wine; and enforcement of the Michigan Liquor Control Code.

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obtained by calling 517.334.8050  
or by visiting our Web site at:  
[www.state.mi.us/audgen/](http://www.state.mi.us/audgen/)



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**James S. Neubecker, C.P.A., C.I.A., D.P.A.**  
Executive Deputy Auditor General

**Michael J. Mayhew, C.P.A.**  
Deputy Auditor General for Audits





STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

August 15, 2002

Mr. Daniel J. Gustafson, Chairman  
Michigan Liquor Control Commission  
7150 Harris Drive  
Lansing, Michigan  
and  
Mr. Ronald M. Basso, Acting Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Mr. Gustafson and Mr. Basso:

This is our report on the financial audit of the Michigan Liquor Control Commission, Department of Consumer and Industry Services, for the period October 1, 1999 through September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial statements; the Liquor Purchase Revolving Fund financial statements and notes to the financial statements; the Michigan Liquor Control Commission's schedule of governmental funds revenue and transfers, presented as supplemental information; our independent auditor's report on compliance and on internal control over financial reporting; and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



## **TABLE OF CONTENTS**

### **MICHIGAN LIQUOR CONTROL COMMISSION DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES**

#### **INTRODUCTION**

|                | <b><u>Page</u></b> |
|----------------|--------------------|
| Report Summary | 1                  |
| Report Letter  | 3                  |

#### **INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

|                                                                 |    |
|-----------------------------------------------------------------|----|
| Independent Auditor's Report on the Financial Statements        | 6  |
| Liquor Purchase Revolving Fund Financial Statements             |    |
| Statement of Net Assets                                         | 8  |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 9  |
| Statement of Cash Flows                                         | 10 |
| Notes to the Financial Statements                               | 11 |

#### **SUPPLEMENTAL INFORMATION**

|                                                       |    |
|-------------------------------------------------------|----|
| Michigan Liquor Control Commission Financial Schedule |    |
| Schedule of Governmental Funds' Revenue and Transfers | 16 |

#### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL**

|                                                                                                |    |
|------------------------------------------------------------------------------------------------|----|
| Independent Auditor's Report on Compliance and on Internal<br>Control Over Financial Reporting | 17 |
|------------------------------------------------------------------------------------------------|----|

#### **GLOSSARY**

|                                |    |
|--------------------------------|----|
| Glossary of Acronyms and Terms | 19 |
|--------------------------------|----|



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on the Financial Statements

April 11, 2002

Mr. Daniel J. Gustafson, Chairman  
Michigan Liquor Control Commission  
7150 Harris Drive  
Lansing, Michigan  
and  
Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Mr. Gustafson and Ms. Wilbur:

We have audited the accompanying statement of net assets of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Consumer and Industry Services, as of September 30, 2001 and September 30, 2000 and the related statement of revenues, expenses, and changes in fund net assets and statement of cash flows for the fiscal years then ended. These financial statements are the responsibility of the Michigan Liquor Control Commission's management and the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Liquor Purchase Revolving Fund and are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its enterprise funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Liquor Purchase Revolving Fund as of September 30, 2001 and September 30, 2000 and the results of its operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2002 on our tests of the Michigan Liquor Control Commission's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying supplemental information, the schedule of governmental funds' revenue and transfers, is presented for purposes of additional analysis and is not a required part of the Liquor Purchase Revolving Fund's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



LIQUOR PURCHASE REVOLVING FUND  
Michigan Liquor Control Commission  
Department of Consumer and Industry Services  
Statement of Net Assets  
As of September 30

|                                        | <u>2001</u>                | <u>2000</u>                |
|----------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                          |                            |                            |
| Current Assets:                        |                            |                            |
| Imprest cash                           | \$ 700                     | \$ 1,400                   |
| Equity in Common Cash                  | 52,392,856                 | 56,604,961                 |
| Liquor inventory (Note 3)              | 3,291,412                  | 2,907,914                  |
| Prepaid distribution costs             | 247,765                    | 182,768                    |
| Other assets                           | <u>5,597,222</u>           | <u>4,929,731</u>           |
| Total Assets                           | <u>\$ 61,529,955</u>       | <u>\$ 64,626,774</u>       |
| <b>LIABILITIES</b>                     |                            |                            |
| Current Liabilities:                   |                            |                            |
| Warrants outstanding                   | \$ 141,694                 | \$ 2,365,916               |
| Accounts payable and other liabilities | 53,353,853                 | 52,927,297                 |
| Deferred revenue                       |                            | 2,399                      |
| Amounts due to other funds             | 78,943                     | 66,593                     |
| Current compensated absences (Note 7)  | <u>332,217</u>             | <u>600,288</u>             |
| Total Current Liabilities              | <u>\$ 53,906,707</u>       | <u>\$ 55,962,493</u>       |
| Long-Term Liabilities:                 |                            |                            |
| Compensated absences (Note 7)          | <u>947,510</u>             | <u>1,988,542</u>           |
| Total Liabilities                      | <u>\$ 54,854,217</u>       | <u>\$ 57,951,035</u>       |
| <b>NET ASSETS</b>                      |                            |                            |
| Unrestricted                           | <u>\$ 6,675,739</u>        | <u>\$ 6,675,739</u>        |
| Total Net Assets                       | <u><u>\$ 6,675,739</u></u> | <u><u>\$ 6,675,739</u></u> |

The accompanying notes are an integral part of the financial statements.

LIQUOR PURCHASE REVOLVING FUND  
Michigan Liquor Control Commission  
Department of Consumer and Industry Services  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Fiscal Years Ended September 30

|                                                                 | <u>2001</u>                | <u>2000</u>                |
|-----------------------------------------------------------------|----------------------------|----------------------------|
| OPERATING REVENUES                                              |                            |                            |
| Total gross sales                                               | \$ 712,663,497             | \$ 683,363,618             |
| Less: Discounts allowed                                         | <u>121,193,161</u>         | <u>116,221,083</u>         |
| Proceeds - Sale of liquor                                       | \$ 591,470,336             | \$ 567,142,535             |
| Miscellaneous revenue                                           | <u>614,163</u>             | <u>169,446</u>             |
| Total Operating Revenues                                        | <u>\$ 592,084,499</u>      | <u>\$ 567,311,981</u>      |
| OPERATING EXPENSES                                              |                            |                            |
| Cost of goods sold                                              | \$ 431,736,605             | \$ 413,923,953             |
| Distribution costs paid to suppliers (Note 8)                   | 32,525,813                 | 31,271,457                 |
| Commission                                                      | 370,300                    | 361,022                    |
| Management support                                              | 2,617,836                  | 2,482,939                  |
| Licensing and enforcement                                       | 4,774,229                  | 5,137,133                  |
| Compensated absences (Note 7)                                   | (1,309,103)                | (225,620)                  |
| Depreciation on capital assets (Note 2)                         | 71,805                     | 71,805                     |
| Department of Consumer and Industry Services operating expenses | <u>8,642,905</u>           | <u>5,425,981</u>           |
| Total Operating Expenses                                        | <u>\$ 479,358,585</u>      | <u>\$ 458,448,670</u>      |
| Operating Income (Loss)                                         | <u>\$ 112,725,914</u>      | <u>\$ 108,863,311</u>      |
| NONOPERATING REVENUES (EXPENSES)                                |                            |                            |
| Specific tax, liquor 1.85%                                      | \$ 10,419,088              | \$ 9,990,957               |
| Interest revenue (Note 6)                                       | 4,247,627                  | 5,688,093                  |
| Other nonoperating revenue (Note 2)                             | <u>22</u>                  | <u>2,827,025</u>           |
| Total Nonoperating Revenues (Expenses)                          | <u>\$ 14,666,737</u>       | <u>\$ 18,506,075</u>       |
| Income (Loss) Before Transfers                                  | <u>\$ 127,392,651</u>      | <u>\$ 127,369,386</u>      |
| TRANSFERS                                                       |                            |                            |
| Income transferred to General Fund (Note 1)                     | \$ (118,832,050)           | \$ (119,650,324)           |
| Other transfers                                                 | <u>(8,560,601)</u>         | <u>(7,719,062)</u>         |
| Total Transfers In (Out)                                        | <u>\$ (127,392,651)</u>    | <u>\$ (127,369,386)</u>    |
| Change in Net Assets                                            | \$ 0                       | \$ 0                       |
| Total net assets - Beginning of fiscal year                     | <u>6,675,739</u>           | <u>6,675,739</u>           |
| Total net assets - End of fiscal year                           | <u><u>\$ 6,675,739</u></u> | <u><u>\$ 6,675,739</u></u> |

The accompanying notes are an integral part of the financial statements.

LIQUOR PURCHASE REVOLVING FUND  
Michigan Liquor Control Commission  
Department of Consumer and Industry Services  
Statement of Cash Flows  
For the Fiscal Years Ended September 30

|                                                                                                      | <u>2001</u>                      | <u>2000</u>                      |
|------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                          |                                  |                                  |
| Receipts from customers                                                                              | \$ 592,082,100                   | \$ 567,308,912                   |
| Payments to employees and for administrative expenses                                                | (14,299,486)                     | (12,660,154)                     |
| Payments to suppliers                                                                                | (465,528,463)                    | (435,720,968)                    |
| Other receipts                                                                                       | 22                               | 5,523                            |
| Other payments                                                                                       | (1,516,818)                      | (4,377,864)                      |
| Net Cash Provided (Used) by Operating Activities                                                     | <u>\$ 110,737,355</u>            | <u>\$ 114,555,450</u>            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                               |                                  |                                  |
| Specific tax on spirits                                                                              | \$ 10,419,088                    | \$ 9,990,957                     |
| Transfers to other funds                                                                             | (127,392,651)                    | (127,369,386)                    |
| Net Cash Provided (Used) by Noncapital Financing Activities                                          | <u>\$ (116,973,563)</u>          | <u>\$ (117,378,429)</u>          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                      |                                  |                                  |
| Proceeds from sale of property, plant and equipment                                                  | \$                               | \$ 3,475,000                     |
| Net Cash Provided (Used) by Capital and Related Financing Activities                                 | <u>\$ 0</u>                      | <u>\$ 3,475,000</u>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                          |                                  |                                  |
| Interest and dividends on investments                                                                | \$ 4,247,627                     | \$ 5,688,093                     |
| Net Cash Provided (Used) by Investing Activities                                                     | <u>\$ 4,247,627</u>              | <u>\$ 5,688,093</u>              |
| <br>Net Cash Provided (Used) - All Activities                                                        | <br>\$ (1,988,583)               | <br>\$ 6,340,112                 |
| Cash and cash equivalents at beginning of year                                                       | <u>54,240,445</u>                | <u>47,900,333</u>                |
| <br>Cash and Cash Equivalents at End of Year                                                         | <br><u><u>\$ 52,251,862</u></u>  | <br><u><u>\$ 54,240,445</u></u>  |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>                                                   |                                  |                                  |
| Per Statement of Net Assets Calculations:                                                            |                                  |                                  |
| Cash                                                                                                 | \$ 700                           | \$ 1,400                         |
| Equity in Common Cash                                                                                | 52,392,856                       | 56,604,961                       |
| Warrants outstanding                                                                                 | <u>(141,694)</u>                 | <u>(2,365,916)</u>               |
| <br>Cash and Cash Equivalents at End of Year                                                         | <br><u><u>\$ 52,251,862</u></u>  | <br><u><u>\$ 54,240,445</u></u>  |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                                  |                                  |
| Operating income (loss)                                                                              | \$ 112,725,914                   | \$ 108,863,314                   |
| Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities: |                                  |                                  |
| Depreciation expense                                                                                 | 0                                | 71,805                           |
| Net changes in assets and liabilities:                                                               |                                  |                                  |
| Inventories                                                                                          | (383,498)                        | 3,849,612                        |
| Other assets (Net)                                                                                   | (720,116)                        | (3,851,041)                      |
| Accounts payable and other liabilities                                                               | (882,546)                        | 5,624,828                        |
| Deferred revenue                                                                                     | <u>(2,399)</u>                   | <u>(3,069)</u>                   |
| <br>Net Cash Provided (Used) by Operating Activities                                                 | <br><u><u>\$ 110,737,355</u></u> | <br><u><u>\$ 114,555,450</u></u> |

The accompanying notes are an integral part of the financial statements.

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial statements report the financial position and results of operations and cash flows of the Liquor Purchase Revolving Fund as of and for the fiscal years ended September 30, 2001 and September 30, 2000. The Michigan Liquor Control Commission (MLCC), within the Department of Consumer and Industry Services, is primarily responsible for the Fund. The Fund is a part of the State of Michigan's reporting entity and is reported as an enterprise fund in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

MLCC is governed by Sections 436.1101 - 436.2303 of the *Michigan Compiled Laws* (Act 58, P.A. 1998, the Michigan Liquor Control Code of 1998). MLCC consists of five members, each appointed for a term of four years by the Governor with the advice and consent of the Senate. The responsibilities of MLCC include the oversight of alcoholic liquor distribution within the State; licensing of the manufacture, importation, and sale of liquor; levy and collection of excise and specific taxes on liquor, beer, and wine; and enforcement of the Michigan Liquor Control Code.

Act 259, P.A. 1941, authorized the Fund. Under State monopoly, liquor is sold at wholesale through a State-controlled, privately operated distribution system. The Fund accounts for the sale, replenishing, and transportation of the liquor stock from liquor vendors to the retail licensees. Administrative, warehousing, and delivery costs are paid for through the Fund. In accordance with Act 431, P.A. 1984, the net income of the Fund is transferred to the General Fund.

The notes accompanying these financial statements relate directly to the Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; and Pension Benefits and Other Postemployment Benefits.

b. Basis of Accounting and Presentation

The financial statements contained in this report are prepared on the accrual basis of accounting. The accrual basis of accounting, which emphasizes the measurement of total financial position and results of operations, is explained in more detail in the *SOMCAFR*.

The accompanying financial statements present only the Fund. Accordingly, they are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its enterprise funds.

Because of the early implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, by the State, the financial statements presented for the Fund have been modified from what has been presented in prior reporting periods. In place of presenting a balance sheet and a statement of revenues, expenses, and changes in retained earnings, GASB Statement No. 34 requires a new financial statement presentation format be used that includes a statement of net assets and a statement of revenues, expenses, and changes in fund net assets. The statement of cash flows remains. However, GASB Statement No. 34 requires it to be presented using the direct method in place of the indirect method that was used in prior reporting periods.

Note 2 Capital Assets and Depreciation

MLCC sold its remaining capital asset, a warehouse and land located at 2251 Dix Highway, Lincoln Park, on August 31, 2000. The total selling price for both the warehouse and land was \$3,475,000. The sale resulted in a net gain of \$2,821,502, which was recorded as nonoperating revenue on the Fund financial statements during fiscal year 1999-2000. A \$71,805 depreciation expense related to this capital asset was recorded on the Fund financial statements for this same time period.

Note 3 Liquor Inventory

Inventory is stored and handled by private authorized distribution agents on behalf of MLCC. Inventory is purchased daily in amounts sufficient to fill orders received the prior day. The inventory is valued at the latest quoted price, which

equates approximately to cost. This method of inventory valuation is not in accordance with accounting principles generally accepted in the United States of America. However, it did not materially affect reported inventory valuation.

**Note 4 Retirement Contributions**

The Fund contributed a total of approximately \$987,622 and \$794,309 to two employee retirement plans for fiscal years 2000-01 and 1999-2000, respectively. New employees hired after March 30, 1997 participate in a defined contribution plan that is separate from the State Employees' Retirement System defined benefits plan. Employees hired before March 31, 1997 are covered by the defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

**Note 5 Budgeting and Budgetary Control**

The Legislature, through the annual appropriations acts, establishes a budget for all Fund expense categories, except for liquor purchased for resale and the related distribution costs paid to suppliers.

**Note 6 Interest Earnings**

For investment purposes, Fund cash is kept in the State Treasurer's Common Cash Pool. The Fund began receiving credit for the interest earned on its cash balances deposited with the State Treasurer effective April 14, 1998.

**Note 7 Compensated Absences**

Compensated absences liabilities are computed annually by the Department of Management and Budget to recognize the future liability for employees' current leave balances. The calculation uses an average of the current year and the prior year annual and sick leave payoffs to determine the current portion of the compensated absences liability. The current liability then is subtracted from the total liability to determine the long-term portion of the liability.

To record the current expenses related to changes in the compensated absences liability, entries are made to increase or decrease the current and long-term compensated absences liabilities to their present calculated levels. These entries result in the recording of a compensated absences expense for the current fiscal year in the amount of the liability increase. A liability decrease results in a negative expense and this situation occurred in both fiscal years 2000-01 and 1999-2000.

Note 8 Distribution Costs Paid to Suppliers

At the beginning of our audit period, liquor suppliers paid the authorized distribution agents (ADAs) a minimum of \$6.50 for each case of spirits purchased by MLCC. MLCC paid \$5.42 directly to the liquor suppliers for each case of spirits that it purchased. These payments were to help offset the payments made by the liquor suppliers to the ADAs for warehousing and delivery services.

In December 2000, MLCC increased the State's per-case fee payment for the warehousing and delivery of spirits by \$.52 per case. This \$.52 per-case increase was made retroactively, effective for the period beginning January 30, 2000. As a result, the minimum dollar amount that liquor suppliers were required to pay ADAs for warehousing and delivery increased to \$7.02 per case. However, because the \$.52 per-case increase was not approved by September 30, 2000, MLCC estimated and established a \$2,253,575 account payable at fiscal year end to account for the expected retroactive per-case increase.

Effective February 4, 2001, MLCC again increased the State's per-case fee payment for the warehousing and delivery of spirits by an additional \$.30 per case. This second increase during our audit period brought the total dollar amount paid by the State for distribution of spirits to \$6.24 per case, and the minimum dollar amount that liquor suppliers were required to pay ADAs for warehousing and delivery increased to \$7.32 per case.

## SUPPLEMENTAL INFORMATION



MICHIGAN LIQUOR CONTROL COMMISSION  
Department of Consumer and Industry Services  
Schedule of Governmental Funds' Revenue and Transfers  
For the Fiscal Years Ended September 30

|                                                                   | <u>2001</u>                  | <u>2000</u>                  |
|-------------------------------------------------------------------|------------------------------|------------------------------|
| <b>GENERAL FUND</b>                                               |                              |                              |
| General Purpose Revenue:                                          |                              |                              |
| Beer excise tax                                                   | \$ 42,518,439                | \$ 42,532,399                |
| Liquor specific tax                                               | 28,404,040                   | 27,233,402                   |
| Wine excise tax                                                   | 7,838,840                    | 7,503,723                    |
| Mixed spirit excise tax                                           | 940,621                      | 833,754                      |
| Penalties imposed by MLCC                                         | 1,644,780                    | 1,527,335                    |
| Miscellaneous                                                     | 55,837                       | 111,069                      |
| Total General Purpose Revenue                                     | <u>\$ 81,402,557</u>         | <u>\$ 79,741,682</u>         |
| Restricted Revenue:                                               |                              |                              |
| Liquor specific tax for tourism and convention facility promotion | \$ 28,484,833                | \$ 27,311,287                |
| Retail License Fees:                                              |                              |                              |
| 55% to local governments                                          | 5,376,659                    | 5,125,861                    |
| 41.5% to licensing and enforcement                                | 4,089,881                    | 4,067,322                    |
| 3.5% to alcoholism prevention programs                            | 344,930                      | 343,062                      |
| Sunday sales license fees                                         | 1,277,013                    | 1,256,347                    |
| Liquor license transfer fees                                      | 677,019                      | 685,015                      |
| License fees for Grape and Wine Industry Council                  | 415,062                      | 423,319                      |
| Inspection fees                                                   | 293,287                      | 303,324                      |
| Liquor Control Act                                                | 6,035                        | 6,535                        |
| Miscellaneous                                                     | 41,714                       | 43,044                       |
| Total Restricted Revenue                                          | <u>\$ 41,006,433</u>         | <u>\$ 39,565,116</u>         |
| Total General Fund Revenue                                        | <u>\$ 122,408,990</u>        | <u>\$ 119,306,798</u>        |
| Transfers:                                                        |                              |                              |
| Department of Civil Service assessment                            | \$ 165,069                   | \$ 163,162                   |
| Department of Attorney General assessment                         | 840,300                      | 805,400                      |
| Office of the Auditor General assessment                          | 85,300                       | 75,500                       |
| Department of Management and Budget assessment                    | 48,934                       |                              |
| Department of Consumer and Industry Services                      | 16,063,905                   | 12,100,978                   |
| Net income to General Fund                                        | 118,832,050                  | 119,650,324                  |
| Total Transfers                                                   | <u>\$ 136,035,558</u>        | <u>\$ 132,795,364</u>        |
| Total General Fund Revenue and Transfers                          | <u><u>\$ 258,444,548</u></u> | <u><u>\$ 252,102,162</u></u> |
| <b>SCHOOL AID FUND</b>                                            |                              |                              |
| Restricted Revenue:                                               |                              |                              |
| Liquor specific tax                                               | <u>\$ 28,404,040</u>         | <u>\$ 27,233,401</u>         |
| Total School Aid Fund Revenue                                     | <u><u>\$ 28,404,040</u></u>  | <u><u>\$ 27,233,401</u></u>  |



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OFFICE OF THE AUDITOR GENERAL  
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LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

April 11, 2002

Mr. Daniel J. Gustafson, Chairman  
Michigan Liquor Control Commission  
7150 Harris Drive  
Lansing, Michigan  
and  
Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Mr. Gustafson and Ms. Wilbur:

We have audited the financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Consumer and Industry Services, as of and for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated April 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Liquor Purchase Revolving Fund's financial statements are free of material misstatement, we performed tests of the Michigan Liquor Control Commission's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Liquor Control Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Michigan Liquor Control Commission, the State's management, and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

## **Glossary of Acronyms and Terms**

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADA</b>                   | authorized distribution agent (private entity).                                                                                                                                                                                                                                                                                                                                                                       |
| <b>financial audit</b>       | An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.                                                                                                                                                                                           |
| <b>internal control</b>      | A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.                                                                                                                                                                                        |
| <b>material misstatement</b> | A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.                                                                                                                                                       |
| <b>material weakness</b>     | A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. |
| <b>MLCC</b>                  | Michigan Liquor Control Commission.                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>reportable condition</b>  | A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.                                                         |

**unqualified opinion**

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing this "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.